

KEY HIGHLIGHTS OF THE UPSTREAM PETROLEUM OPERATIONS (COST EFFICIENCY INCENTIVES) ORDER, 2025

Energy and Natural Resources Insight



September 2025



P a g e s C O N T E N T S

2 Introduction

2 Key Objectives of the CEI Order

3 Scope and Applicability

3 Setting the Benchmarks

**4 Tax Credit Incentives:
Mechanism and Calculation**

5 Monitoring and Compliance

5 Implementation Framework

**6 Potential Challenges to the
Implementation of the CEI Order**

**6 Conclusion: A Catalyst for
Sustainable Growth**

1. Introduction

For years, Nigeria's oil and gas sector has grappled with high operating costs largely attributed to prolonged project execution timelines and rigid local content requirements.¹ These inefficiencies have undermined the country's attractiveness as an investment destination and reduced its competitive edge in the global market.

In recognition of these challenges, the Federal Government of Nigeria has implemented targeted policy measures to address systemic inefficiencies in the sector. In a strategic move to enhance operational efficiency and strengthen Nigeria's competitiveness in the global oil and gas market, President Bola Ahmed Tinubu signed the *Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025*, which came into effect on April 30, 2025, pursuant to the powers vested in him under the Constitution and the Companies Income Tax Act.²

The Upstream Petroleum Operations (Cost Efficiency Incentives) Order emerges as a critical regulatory instrument designed not only to address cost inefficiencies but also to align Nigeria's upstream operations with global standards and best practices. The Order introduces a structured incentive framework aimed at reducing operating costs, promoting fiscal discipline, and maximizing economic value from the upstream petroleum operations.

2 Key Objectives of the CEI Order

The primary objective of the Order is to establish a robust Cost Efficiency Incentive (CEI) framework that:

- i. Reduces operating costs through achievable cost reduction measures.
- ii. Promotes cost discipline among stakeholders in the upstream sector.
- iii. Improves operational performance and streamlines contract cycles.

¹ See the commencement part of the Cost Efficiency Incentives Order, 2025

² Section 5(1) of the Constitution of the Federal Republic of Nigeria, 1999 (as amended), sections 23 (2) and 89 of the Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria, 2004

-
- iv. Maximizes economic value derived from the oil and gas sector.
 - v. Offers tax incentives to companies that meet or exceed set cost reduction targets³.

These objectives reflect a broader government agenda to revitalize the petroleum sector and attract both domestic and foreign investments by fostering a more predictable and efficient business environment.

3. Scope and Applicability

The Order applies to all lessees, licensees, and their contractors engaged in upstream petroleum operations in Nigeria.⁴ These entities become eligible for incentives, which have been specified in Paragraphs 4 and 5 of the Order, upon achieving or surpassing cost reduction targets annually established by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC).⁵

4. Setting the Benchmarks

Under the Order, the NUPRC is mandated to conduct annual benchmarking studies to determine appropriate Unit Operating Costs (UOC) across three key terrains: onshore, shallow water, and deep offshore as well as appropriate cost benchmarks for upstream operational activities.⁶ These benchmarks are to be set after stakeholder consultations and are required to be aligned with guidelines issued under the Petroleum Industry Act (PIA), 2021.⁷

Each year, the Commission is required to assign specific UOC reduction targets tailored to the unique operating environments and production volumes of each terrain. Companies that meet or exceed these targets will then qualify for tax credit incentives.⁸

3 Paragraph 1 of the Order

4 Paragraph 2 of the Order

5 Paragraph 2 (2) of the Order

6 Paragraph 3(1)(a) of the Order

7 Paragraph 3(1)(b) of the Order

8 Paragraph 3 (3) of the Order

It is important to note that the Commission, when determining the adherence to cost reduction targets set by it, shall verify production numbers during the annual review process and also reconcile production and lifting volume to prevent any discrepancies that may arise from issues of under-lift or over-lift.⁹

5. Tax Credit Incentives: Mechanism and Calculation

Companies that achieve cost savings relative to targets as set by the Commission are eligible to claim tax credits, which will in turn be applied against the overall tax liability of the companies' relevant assets as a means to reward such companies for having effectively reduced cost without compromising existing government revenue expectations.¹⁰

It should be noted that the incentives established under this order shall cease to have any effect on the 31st day of May 2035, unless its application is extended or modified by the President; also unused tax credits shall become invalid and unenforceable after the set date¹¹.

The formula for determining the Cost Efficiency Incentives is¹²:

$$CEI = (CS) \times RTR \times 50\%$$

Where:

CS (Cost Savings) = (Target Operating Cost – Actual Operating Cost) × Annual Fiscal Sales of Hydrocarbons

RTR = Referenced Tax Rate (applicable company income tax rate)

50% = Ceiling for the CEI

CS must be a positive integer to qualify

This formula ensures that companies are rewarded proportionally for realized cost efficiencies without compromising expected government revenue.

⁹ Paragraph 3 (2) of the Order

¹⁰ Paragraph 4 of the Order

¹¹ Paragraph 4 (3) of the Order

¹² Paragraph 5 of the Order

Additionally, the Federal Inland Revenue Service (FIRS) is tasked with validating all claims to ensure consistency between the Unit Operating Costs used for eligibility for the CEI and those used for tax computations¹³. Furthermore, no tax credit claim can exceed 20% of a lessee or licensee's total tax liability in any given year.¹⁴

6. Monitoring and Compliance

To prevent abuse and ensure integrity, the NUPRC will exclude cost reductions achieved through unfair or prejudicial dealings with contractors, employees, or host communities when assessing eligibility¹⁵. Moreover, all tax credits granted under this Order remain valid for three years from the date of issuance and may only be offset against applicable income tax liabilities during that period.¹⁶

7. Implementation Framework

Within 30 days of the Order's effective date, the FIRS and NUPRC, with the approval of the Minister of Finance, are required to issue detailed implementation guidelines¹⁷.

These guidelines must include:

- Transparent benchmarks and evaluation criteria
- Data submission requirements for annual assessments
- The requirement for the publication of qualifying companies before tax filing deadlines
- Detailed computation methods for incentives¹⁸

These measures underscore the government's commitment to transparency, accountability, and ease of compliance.

13 Paragraph 6(3) of the Order

14 Paragraph 6(2) of the Order

15 Paragraph 6(4) of the Order

16 Paragraph 6(5) of the Order

17 Paragraph 7(1) of the Order

18 Paragraph 7(2) of the Order

8. Potential Challenges to the Implementation of the CEI Order

While the *Cost Efficiency Incentives (CEI) Order, 2025* represents a significant and commendable policy advancement, its successful implementation may face several practical and structural challenges:

- i. The effectiveness of the CEI framework hinges on the accuracy and objectivity of the Unit Operating Cost benchmarks set by the NUPRC. Inaccurate or overly ambitious benchmarks based on incomplete or manipulated data could either disqualify deserving companies or create perverse incentives to underreport costs.
- ii. There is a potential risk that companies may prioritize cost reduction over operational safety, environmental compliance, or fair labor practices. Without robust oversight, cost-saving measures could lead to reduced maintenance, workforce downsizing, or weakened community engagement which could in turn undermine sustainability.
- iii. The success of the Order depends on the technical and operational capacity of NUPRC and FIRS to conduct annual benchmarking, verify claims, and enforce compliance. Institutional limitations in staffing, technology, or inter-agency coordination could hinder timely and effective implementation.

9. Conclusion: A Catalyst for Sustainable Growth

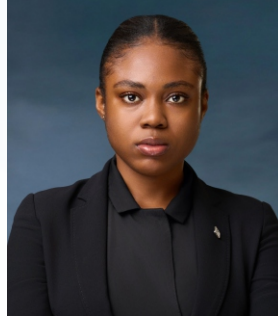
The introduction of the Cost Efficiency Incentives Order, 2025, marks a pivotal shift in Nigeria's upstream petroleum policy. By incentivizing cost efficiency and rewarding responsible corporate behavior, the government aims to create a win-win scenario where companies benefit from tax credits while the nation gains from enhanced productivity and increased revenue realization. However, the ultimate success of this policy will not be



measured by its design, but by its execution. Addressing the challenges of data integrity, regulatory capacity, compliance monitoring, and equitable access will be critical to ensuring that the incentives achieve their intended outcomes without unintended consequences.



AUTHOR



Chidera Mbaogu

*Energy & Natural Resources
Practice Unit*



Contact

LAGOS

KENNA Place
8, Ogunyemi Road, Palace Way, Oniru
PO Box 73002, Victoria Island, Lagos

ABUJA

1st Floor, Novare Central
Plot 502 Dalaba Street,
Wuse Zone 5, FCT 900285, Abuja

ENUGU

3 Emmanuel Ngwu Street,
Thinkers' Corner,
Enugu, 400001

+234 811 395 1052, +234 811 395 1053
counsel@kennapartners.com

